

ROLE OF AUDIT, BUDGET COMPLIANCE, AND FINANCIAL REPORTING IN DRIVING FINANCIAL ACCOUNTABILITY IN NIGERIA'S PUBLIC SECTORS

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Abstract:

Despite ongoing fiscal reforms, persistent inefficiencies in Nigeria's public sector call into question the effectiveness of audit practices, budgetary discipline, and financial reporting systems. This study explores the role of audit, budget compliance, and financial reporting in driving financial accountability in Nigeria's public sector, focusing on how these core financial accountability mechanisms influence overall government performance. The research employed a descriptive survey design and collected data from management-level personnel across selected Ministries, Departments, and Agencies (MDAs) within the Federal Capital Territory, Abuja. Using Partial Least Squares Structural Equation Modeling (PLS-SEM), the study analyzed the relationships between the independent variables (audit practices, budget compliance, and financial reporting quality) and the dependent variable (financial accountability). Results show that while budget compliance has a strong, positive, and significant effect on public accountability, audit practices exhibit no significant influence, and financial reporting quality reveals a statistically significant but negative relationship. These findings suggest that, although adherence to budget implementation significantly drives accountability, existing audit and reporting mechanisms may lack the effectiveness or institutional support needed to translate into meaningful accountability outcomes. The study concludes that reforms in audit enforcement, strategic use of financial reporting, and enhanced budget compliance are crucial for improving accountability within Nigeria's public sector. Policy recommendations are made to guide public sector managers and stakeholders, while future research is encouraged to examine these dynamics in sector-specific contexts.

Keywords: Audit practices, Budget compliance, Financial accountability, Financial reporting Quality, Public sector

INTRODUCTION

Around the globe, financial accountability remains a critical determinant of public sector performance. Governments that prioritize accountability mechanisms typically exhibit superior resource allocation, public service delivery, and citizen trust (OECD, 2020; UNDP, 2021). In developed nations, rigorous auditing practices, transparent financial reporting, and legislative oversight have yielded tangible improvements in governance and fiscal performance (World Bank, 2022). In sub-Saharan Africa, however, financial accountability systems often face challenges rooted in weak institutional frameworks, politicized oversight bodies, and poor enforcement of audit findings (Amoako-Asiedu & Yakubu, 2019). Although regional initiatives such as the African Union's Charter on Values and Principles of Public Service and Administration have advocated reform, practical implementation remains limited.

In Nigeria, the public sector is frequently criticized for inefficiency, corruption, and fiscal mismanagement (Duenya et al., 2017; Olaoye et al., 2021). Financial accountability mechanisms such as audit reviews, financial disclosure, and budget adherence are inconsistently applied or manipulated for political expediency (Okpala, 2012; Akhidime, 2012). According to Agwor and Akani (2017), the Nigerian public sector often records high allocations with disproportionately low outcomes in infrastructure, education, and healthcare.

Specifically, key financial accountability mechanisms- audit practices, financial reporting quality, and budget compliance- have shown mixed results in Nigeria. While audit institutions like the Auditor-General of the Federation exist, their reports are rarely acted upon (Olaoye et al., 2021). Financial reporting is fragmented, with many MDAs failing to submit timely reports in line with IPSAS standards (Duenya et al., 2017). Budget compliance is weak, with frequent deviations and supplementary budgets passed without adequate legislative scrutiny (Ali-Momoh et al., 2024). These failures suggest a structural problem, raising

the question: To what extent do deficiencies in financial accountability mechanisms drive poor public sector performance in Nigeria? Despite substantial funding, Nigeria's public sector continues to underperform in critical areas like power supply, education, and public health. Notably, the collapse of public hospitals during the COVID-19 pandemic and delays in salary payments for civil servants in 2023 highlight serious operational inefficiencies (Akinwunmi & Akinola, 2019; Adeyemi & Olarewaju, 2019). Yet, a comprehensive linkage between financial accountability and performance remains largely unexplored.

There exists a systemic inefficiency in Nigeria's public sector despite increased budgetary allocations. These inefficiencies manifest in poor infrastructure, poor service delivery, and recurring fiscal crises. Whether these failures stem from weak financial accountability mechanisms—such as substandard audit practices or poor compliance with reporting standards—has not been holistically analyzed. Hence, there is a need to investigate the link between financial accountability and public sector performance, particularly using robust empirical techniques in a Nigerian context.

Prior studies have often relied on regression models (Onuorah & Appah, 2012), Chi-square analysis (Agwor & Akani, 2017), or ANOVA (Okpala, 2012), which may not adequately account for complex relationships among latent constructs. These models also frequently ignore mediation effects and lack multivariate robustness. Furthermore, most studies are limited to South-West or South-South Nigeria with minimal focus on MDAs in Abuja, the Federal Capital Territory. To fill this methodological and locational gap, this study adopts the Partial Least Squares Structural Equation Modeling (PLS-SEM), which is suitable for modeling latent constructs and small sample sizes (Hair et al., 2020).

The study aims to:

Assess the effect of audit practices on financial accountability of public sectors in FCT-Abuja.

- i. Examine the effect of financial reporting quality on financial accountability of public sectors in FCT-Abuja.
- ii. Evaluate the extent to which budget compliance affects the financial accountability of public sectors in FCT-Abuja.

LITERATURE REVIEW

Conceptual Review

Financial Accountability

Financial accountability refers to the obligation of public officials to explain and justify the use of public funds (OECD, 2020). Agwor and Akani (2017) define it as the mechanism that ensures transparency, efficiency, and integrity in public expenditure. Comparatively, Onuorah & Appah (2012) view it from a compliance perspective, focusing on adherence to legal and procedural standards. While some definitions emphasize legal frameworks, others stress outcome-based measures—such as service delivery.

Audit Practice

Auditing in the public sector is designed to ensure lawful and efficient use of public resources. According to Oloaoye et al. (2021), audit practices include compliance, performance, and forensic audits. Akhidime (2012) argues that weak enforcement of audit reports dilutes their potential. Contrastingly, Babatunde (2013) asserts that even well-conducted audits have limited effect when political interference exists. Thus, the effectiveness of audit practices depends not just on standards but on institutional enforcement.

Financial Reporting Quality

Financial reporting quality refers to the accuracy, completeness, and timeliness of financial disclosures. Duenya et al. (2017) link high-quality reporting to improved decision-making and accountability. However, many Nigerian MDAs fail to meet IPSAS benchmarks. Akinyele (2016) suggests that most reports are either outdated or fabricated, thus undermining financial control. Comparative studies (e.g., Ali-Momoh et al., 2024) also point to inconsistencies between reported figures and audited outcomes.

Budget Compliance

Budget compliance evaluates whether financial activities align with approved plans. Akinwunmi and Akinola (2019) observe that frequent budget revisions in Nigeria compromise accountability. Adejuwon (2014) attributes non-compliance to weak institutional checks and lack of punitive measures. Effective budget adherence is key to achieving developmental goals and ensuring fiscal discipline (Okpala, 2012).

Empirical studies across the globe have consistently demonstrated the significant role of financial accountability mechanisms—such as audit practices, financial reporting quality, and budget compliance—in enhancing public sector performance. For instance, Cangiano et al. (2013) used a cross-national panel data regression across 32 OECD countries to show that audit independence and high reporting standards improve budget credibility and reduce fiscal deficits. Similarly, Gustavson and Sundström (2018), using World Bank governance indicators for over 100 countries, found that external audit effectiveness strongly correlates with reduced corruption and improved agency performance in developing nations.

Diamond (2020) employed a mixed-methods approach in transition economies and concluded that reporting quality contributes to fiscal discipline, especially when backed by legal enforcement. Baber (2011) analyzed 3,200 audit reports from United States of America municipal governments and linked higher audit quality to more efficient government spending. Alsharari (2019) in Jordan, showed through survey-based regression that IPSAS-aligned reporting significantly enhances departmental performance, though data was limited to urban areas. In Nigeria, Olaoye and Adedeji (2020) used regression to confirm that internal audit quality positively affects budget performance, recommending process digitization. Mutiganda (2016) in Rwanda revealed that routine performance audits improve accountability and reduce inefficiencies. In West Africa, Wynne (2011) noted that while audit reports are thorough, implementation remains weak due to enforcement gaps. Chan (2014) drawing on IMF data from Asian countries, found that audit independence contributes to lower corruption and better fiscal outcomes.

In Asia and Africa, the trend remains consistent. In Tanzania, Ali et al. (2017) used a mixed-methods approach to show that internal audits and reporting curb wasteful expenditure, despite regional disparities in data. Kayaga (2020) in Uganda applied PLS-SEM and confirmed that financial reporting quality boosts public trust and project completion, albeit excluding parastatals.

Lastly, Aboagye (2021) in Ghana found a positive relationship between budget compliance and service delivery in education and health, though potential respondent bias was noted. Ahmad and Khan (2016) in Pakistan revealed through ANOVA analysis that strict budget compliance improves project delivery and public trust, although delayed releases hinder outcomes. In South Africa, Pauw (2017) demonstrated through interviews and document reviews that budget deviations negatively impact service quality, while Ijeoma and Sambumbu (2013) found that political interference and weak capacity undermine local audit effectiveness.

Collectively, these studies confirm that financial accountability mechanisms significantly influence the efficiency and performance of public institutions worldwide, while also highlighting common challenges such as political interference, enforcement gaps, and contextual limitations.

Theoretically, Stewardship Theory, developed by Donaldson and Davis (1991), underpins this study by viewing public officials not as self-serving agents, but as stewards who are intrinsically motivated to act in the best

interest of the public. Unlike Agency Theory, it assumes alignment between organizational goals and individual values, making financial accountability mechanisms- such as audit practices, quality financial reporting, and budget compliance- tools that reinforce trust, integrity, and performance. This theory supports the idea that when empowered with clear accountability structures, public managers in MDAs can enhance efficiency and deliver better service outcomes in line with public expectations.

METHODOLOGY

This study adopts a descriptive survey research design, suitable for assessing perceptions and causal relationships (Creswell, 2014). The population consists of management-level staff across selected public sector institutions in the Federal Capital Territory (FCT), Abuja. These include critical Ministries, Departments, and Agencies (MDAs) where financial accountability is paramount, such as the Federal Ministry of Finance, Office of the Auditor-General of the Federation, Budget Office of the Federation, Federal Inland Revenue Service (FIRS), Federal Ministry of Health, and Federal Ministry of Education. These sectors were selected due to their direct involvement in public resource allocation, budget formulation, expenditure control, revenue generation, and essential service delivery.

As the exact population size of management-level staff in these institutions is unknown due to bureaucratic restrictions and data confidentiality, Cochran's formula was applied to estimate the appropriate sample size of 384 respondents (Israel, 2009). Inclusion criteria were strictly defined to ensure the reliability and relevance of responses. Participants were required to:

- i. Hold a supervisory or management-level position (e.g., director, assistant director, head of unit).
- ii. Have a minimum of three years of experience in public financial management, auditing, reporting, or budgeting functions.
- iii. Be employed within federal public sector institutions headquartered in FCT-Abuja.

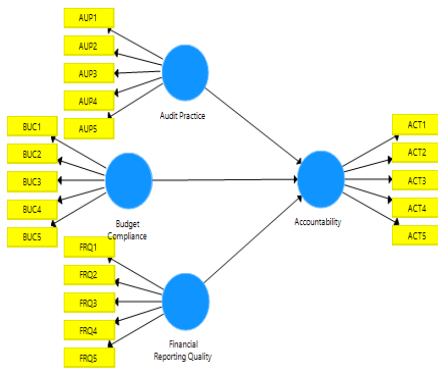
This approach ensures that respondents possess both the institutional insight and operational knowledge necessary to assess the effectiveness of financial accountability mechanisms within their respective organizations.

A convenience sampling technique was used for data collection, given the bureaucratic hurdles in obtaining full staff rosters in federal institutions (Etikan et al., 2016). The survey instrument was a structured questionnaire on a 5-point Likert scale, covering audit practices, financial reporting, and budget compliance.

Out of 384 distributed questionnaires via digital means, 353 were retrieved and found usable. The data were coded and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) via SmartPLS software. This method is preferred due to its robustness in small-sample conditions and its ability to model complex relationships between observed and latent variables (Hair et al., 2020).

Fig. 2

Partial Least Squares (PLS-SEM) Path Model



Source: SmartPls Output (2025)

Keys:

AUP 1 to AUP 5: Responses to the 5 items under the Audit Practice construct.

FRQ 1 to FRQ 5: Responses to the 5 items under the Financial Reporting Quality construct.

BUC 1 to BUC 5: Responses to the 5 items under the Budget Compliance construct.

ACT 1 to ACT 5: Responses to the 5 items under Accountability construct.

See table 1 below for the measurement of the study's variables:

Table 1

Variables Measurements

Variable	Number of Items	Measurement Scale	Source
Audit Practice	5	5-point Likert Ordinal Scale	Gustavson & Sundstrom (2018)
Financial Reporting Quality	5	5-point Likert Ordinal Scale	Diamond (2020)
Budget Compliance	5	5-point Likert Ordinal Scale	Aboagye (2021)
Accountability	5	5-point Likert Ordinal Scale	OECD (2020)

Source: Researchers' Compilations (2025)

RESULTS AND DISCUSSIONS

Descriptive Statistics

	Mean	Median	Min	Max	Std. Dev.	Kurtosis	Skewness
ACT 1	3.13	3	1	5	1.338	-1.145	-0.262
ACT 2	3.13	3	1	5	1.428	-1.331	-0.076
ACT 3	3.26	4	1	5	1.514	-1.446	-0.275
ACT 4	3.70	4	1	5	1.155	-0.597	-0.596
ACT 5	3.82	4	1	5	1.031	-0.116	-0.761
AUP 1	3.63	4	1	5	1.26	-0.337	-0.887
AUP 2	3.50	4	1	5	1.293	-0.794	-0.529
AUP 3	3.24	4	1	5	1.38	-1.116	-0.5
AUP 4	3.26	4	1	5	1.44	-1.188	-0.483
AUP 5	3.53	4	1	5	1.341	-0.756	-0.696
BU 1	2.62	2	1	5	1.439	-1.452	0.208
BU 2	3.67	4	1	5	1.08	0.283	-0.878
BU 3	3.82	4	1	5	1.089	0.695	-1.072
BU 4	3.92	4	1	5	1.071	0.702	-1.145
BU 5	3.80	4	1	5	1.186	-0.142	-0.87
FRQ 1	3.61	4	1	5	1.359	-0.713	-0.759
FRQ 2	3.40	4	1	5	1.187	-0.714	-0.585
FRQ 3	3.51	4	1	5	1.22	-0.65	-0.636
FRQ 4	4.02	4	1	5	1.065	1.079	-1.274
FRQ 5	3.81	4	1	5	1.142	0.787	-1.211

Source: Author's Computation via SmartPLS (2025)

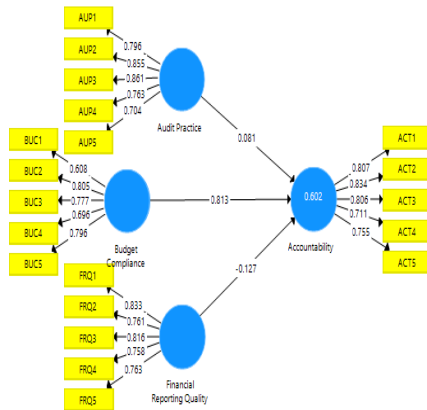
The descriptive statistics reveal that all items measuring financial accountability (ACT), audit practices (AUP), budget compliance (BUC), and financial reporting quality (FRQ) have mean values clustered around 3 to 4, indicating a generally moderate to high level of agreement among respondents. Most median values are 4, suggesting a central tendency toward agreement. The minimum and maximum values (1 to 5) confirm full utilization of the Likert scale. Standard deviations range between 1.03 and 1.51, showing moderate variability in responses. Negative skewness across most items suggests a slight left tail, indicating that more responses leaned toward higher values. Kurtosis values, largely negative, imply flatter distributions (platykurtic),

except FRQ4 and FRQ5, which show mild peakedness. Overall, the data suggests a favorable perception of financial accountability practices across MDAs, with financial reporting quality and audit practices receiving relatively stronger positive responses.

Measurement Model Assessment

Fig 2

Partial Least Squares (PLS-SEM) Output



Source: SmartPls Output (2025)

Table 3

Reliability Test

Constructs	Loading	Cronbach Alpha	Composite Reliability	Average Variance Extracted
ACT1	0.807			
ACT2	0.834			
ACT3	0.806			
ACT4	0.711			
ACT5	0.755	0.843	0.888	0.614
AUP1	0.796			
AUP2	0.855			
AUP3	0.861			
AUP4	0.763			
AUP5	0.704	0.857	0.897	0.637
BUC1	0.608			
BUC2	0.805			
BUC3	0.777			
BUC4	0.696			
BUC5	0.796	0.795	0.857	0.548
FRQ1	0.833			
FRQ2	0.761			
FRQ3	0.816			
FRQ4	0.758			
FRQ5	0.763	0.847	0.89	0.619

Source: Author’s Computation via SmartPLS (2025)

Table 3 presents the reliability test results for the constructs using factor loadings, Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE). All item loadings exceed the acceptable threshold of 0.70, indicating strong individual item reliability, except for BUC1 (0.608) and BUC4 (0.696), which are slightly below but still acceptable in exploratory research. Cronbach’s Alpha values range from 0.795 to 0.857, and Composite Reliability values range from 0.857 to 0.897, both exceeding the 0.70 benchmark, confirming high internal consistency. AVE values for all constructs are above 0.50, establishing convergent validity. Thus, the constructs in Table 3 demonstrate good reliability and validity for further structural model analysis.

Table 4

Validity Test

	ACT	AUP	BUC	FRQ
ACT	0.784			
AUP	0.429	0.798		
BUC	0.771	0.532	0.74	
FRQ	0.475	0.673	0.672	0.787

Source: Author’s Computation via SmartPLS (2025)

Table 4 presents the validity test results using the Fornell-Larcker criterion, which assesses discriminant validity by comparing the square root of the Average Variance Extracted (AVE) for each construct with its correlations to other constructs. According to Fornell and Larcker (1981), discriminant validity is established when a construct’s square root of AVE is greater than its correlations with other constructs. In this study, the square root of AVE for ACT (0.784) exceeds its correlations with AUP (0.429), BUC (0.771), and FRQ (0.475). Similarly, AUP (0.798), BUC (0.740), and FRQ (0.787) each show higher AVE square roots compared to their inter-construct correlations. This indicates that each construct shares more variance with its own indicators than with others, thus confirming adequate discriminant validity for the model constructs as recommended by Hair et al. (2019) and Henseler et al. (2015)

Table 5

Collinearity Tests

Construct	VIF
ACT1	4.437
ACT2	3.749
ACT3	2.752
ACT4	1.874
ACT5	1.84
AUP1	2.208
AUP2	2.411
AUP3	2.625
AUP4	1.707
AUP5	1.631
BUC1	1.309
BUC2	1.941
BUC3	2.929
BUC4	2.556
BUC5	1.822
FRQ1	2.14
FRQ2	2.095
FRQ3	2.011
FRQ4	1.963
FRQ5	1.999

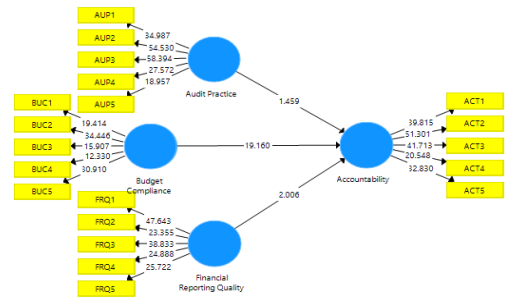
Source: Author’s Computation via SmartPLS (2025)

Table 5 presents the collinearity diagnostics using the Variance Inflation Factor (VIF), which assesses multicollinearity among measurement items. According to Hair et al. (2019), VIF values below 5.0 indicate that multicollinearity is not a serious concern, and values below 3.3 are considered ideal in structural equation modeling. In this study, all VIF values range between 1.309 and 4.437, well below the conservative threshold of 5.0, indicating that no predictor variable excessively overlaps with others. This confirms that the constructs—financial accountability (ACT), audit practices (AUP), budget compliance (BUC), and financial reporting quality (FRQ)—are free from significant multicollinearity, ensuring the robustness of further structural model analysis.

Structural Model Assessments

Fig. 2

Partial Least Squares (PLS-SEM) Bootstrapping Output



Source: SmartPLS Output (2025)

Table 6

Model Fit Analysis

	Saturated Model	Estimated Model
SRMR	0.03	0.03
d_ULS	4.9	4.9
d_G	2.066	2.066
Chi-Square	1555.672	1555.672
NFI	0.94	0.94

Source: Author’s Computation via SmartPLS (2025)

Table 6 presents the model fit indices for both the saturated and estimated models, showing strong evidence of good model fit. The Standardized Root Mean Square Residual (SRMR) value of 0.03 is well below the recommended threshold of 0.08, indicating an excellent fit between the model and the observed data (Hair et al., 2019). Additionally, the Normed Fit Index (NFI) value of 0.94 exceeds the acceptable benchmark of 0.90, further confirming model adequacy (Henseler et al., 2016). Although the Chi-Square value is relatively high at 1555.672, this is typical in large samples and is not solely indicative of poor fit. Both d_ULS (4.9) and d_G (2.066) fall within acceptable ranges when not significantly deviating from their bootstrapped counterparts. Generally, Table 6 suggests that the model fits the data well and is suitable for further structural analysis.

Table 7

Effect Size Analysis

Construct	ACT
ACT	
AUP	0.064
BUC	0.191
FRQ	0.008

Source: Author’s Computation via SmartPLS (2025)

Table 7 presents the effect size (f^2) analysis of the independent variables on financial accountability (ACT). According to Cohen (1988), effect size values of 0.02, 0.15, and 0.35 are considered small, medium, and large, respectively. In this study, budget compliance (BUC) shows a medium effect size of 0.191, indicating a moderate impact on financial accountability. Audit practices (AUP) have a small effect size of 0.064, suggesting a minimal but meaningful contribution, while financial reporting quality (FRQ) has a negligible effect of 0.008, indicating almost no influence on ACT in the model. These results suggest that budget compliance is the most influential factor among the three, reinforcing its critical role in enhancing financial accountability in public sector institutions.

Table 9

Model Explanatory Power Analysis

	R Square	R Square Adjusted
ACT	0.602	0.599

Source: Author’s Computation via SmartPLS (2025)

Table 9 presents the model's explanatory power using R Square and Adjusted R Square values for financial accountability (ACT). The R Square value of 0.602 indicates that 60.2% of the variance in ACT is explained by the combined influence of audit practices, budget compliance, and financial reporting quality. According to Hair et al. (2019), R Square values of 0.25, 0.50, and 0.75 represent weak, moderate, and substantial explanatory power, respectively. Thus, a value of 0.602 suggests a moderately strong model. The Adjusted R Square of 0.599 further confirms model reliability by accounting for the number of predictors, showing minimal shrinkage and good model stability.

Test of Hypotheses

Table 8

Partial Least Squares -SEM Bootstrapping Significance Tests

Relationsh ips	Beta Coefficient	Std. Dev.	T Statistic s	P - Values
AUP -> ACT	0.081	0.056	1.459	0.145
BUC -> ACT	0.813	0.042	19.16	0
FRQ -> ACT	-0.127	0.063	2.006	0.045

Source: Author’s Computation via SmartPLS (2025)

Table 8 presents the results of the Partial Least Squares Structural Equation Modeling (PLS-SEM) bootstrapping significance tests for the hypothesized relationships.

The path from audit practices to financial accountability (AUP → ACT) was not statistically significant ($\beta = 0.081$, $t = 1.459$, $p = .145$), as the t -value is below 1.96 and the p -value exceeds .05, implying that audit practices, as currently implemented in Nigerian public sectors, do not significantly influence accountability. The finding are consistent with that of Cagliano et al. (2013); Gustavson and Sundstom (2018) among others. The results also conform with the assumptions of Stewardship theorist.

Financial accountability (FRQ → ACT) was also statistically significant but negative ($\beta = -0.127$, $t = 2.006$, $p = .045$), suggesting that increased reporting quality, perhaps constrained by bureaucratic rigidity or delayed disclosures, might inversely relate to perceived accountability. The finding is in line with that of Baber (2011), Alsharari (2019), and Diamond (2020) and conforms with the stewardship hypothesis.

The path from budget compliance to financial accountability (BUC → ACT) showed a strong, significant positive effect ($\beta = 0.813$, $t = 19.16$, $p < .001$), exceeding the conventional threshold of $t > 1.96$ and $p < .05$, indicating a highly significant relationship (Hair et al., 2019). The relationship between financial reporting quality. The finding supports the assumption that alignment between organizational goals and individual values are essential for promoting public interests which confirms the stewardship theory; also consistent with the findings of Khan (2016) and Aboagye (2021).

These findings imply that budget compliance is the most impactful driver of financial accountability among the constructs studied, while audit practices remain ineffective, potentially due to poor enforcement or politicization. The unexpected negative effect of financial reporting quality may suggest a disconnect between compliance and transparency or inefficiencies in reporting systems.

CONCLUSION AND RECOMMENDATIONS

The study concludes that strengthening budget discipline significantly enhances financial accountability in the Nigerian public sector, whereas current audit and reporting mechanisms may need systemic reforms to be truly effective. Based on the findings from the study, the following targeted recommendations are proposed for the management of Nigeria's public sector institutions—each directly aligned with the tested relationships:

- i. Strengthen enforcement and monitoring of audit recommendations through the creation of an independent audit implementation task force within Nigeria's public sectors, since audit practices showed no significant effect, improving follow-through rather than just conducting audits could enhance their practical impact on accountability.
- ii. Align reporting quality with performance indicators by linking financial reports to real service delivery outcomes, reducing the emphasis on compliance-based reporting alone. This may counteract the negative perception uncovered in the findings and make financial reporting more relevant and actionable.
- iii. Institutionalize real-time budget tracking and performance-based release of funds to ensure that the public sectors only access budget allocations when compliance with planned spending is verified. This reinforces fiscal discipline and maximizes accountability, as confirmed by the strong positive impact of budget compliance on financial accountability.

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